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011203Z Apr 03

UNCLAS ANKARA 002133

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SUBJECT: TURKISH ECONOMY APRIL 1: MARKETS AWAIT IMF GOOD
NEWS EXPECTED THIS WEEK

REF: ANKARA 2094

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Markets Quiet; Awaiting IMF Good News

1. (U) Transactions volumes in Turkish financial markets were very low on April 1 am. T-bill yields were unchanged at 65 percent compounded, the lira appreciated slightly to TL 1,702,000, and the Istanbul Stock Exchange 100 index was up 1 percent. Stock market transaction volume has averaged at about \$100 million per day over the past week (normal average daily volume is nearly \$500 million). Traders told us markets are awaiting news on the IMF Fourth Review. There is also some expectation in the local markets of a U.S. loan package of \$8.5 billion, with the first tranche coming in the May/June time-frame, though TV news analysts are reporting on April 1 am of concerns in Congress that may reduce this package for Turkey.

IMF and World Bank Updates

2. (SBU) IMF resrep told us Deputy Managing Director Krueger received the LOI for review on the evening of March 31. The Turks had resolved the few remaining issues: they closed the investigation into BRSA's intervention of Pamukbank; they agreed to enhanced quarterly monitoring of the state banks by BRSA bank auditors (this became necessary after the GOT replaced the state bank board, reftel). Resrep said there were no other significant changes to the final LOI. If IMF senior management approve the LOI April 1, then the Turks would plan to sign it April 2. MinState Babacan is planning a press conference to announce the signing, and would also announce the revised schedule for eliminating redundant job in the state enterprises (a 4th Review prior action). IMF staff also expect Babacan to press the Fund to announce a 4th Review board date this week.

3. (SBU) Asked about Deputy PM Sener's press comments this week promising a rescheduling of Ziraat Bank loans to farmers, IMF resrep said he saw those comments and they were nothing new. This is a long-term project of the AKP. If the loans were rescheduled on commercial terms, that was okay; if AKP plans a wholesale rescheduling of a class of loans, that would contradict an LOI undertaking, and the IMF would object.

4. (SBU) World Bank economist Parks told us April 1 that the Bank had extended its pending adjustment loans to Turkey that were due to expire March 31. The revised 2003 disbursement schedule over 2003 is: \$550 million in June; \$825 million in December. (Comment: One of the structural conditions for the World Bank's June disbursement is privatization of state-owned Vakifbank. The World Bank has agreed to accept Vakifbank's sale to its employees' pension fund as meeting this condition.)

GOT Proposes Voluntary "Sacrifice" Fund To Help Pay Debt

5. (SBU) Following the March 31 Cabinet meeting, GOT

spokesman Cicek announced that work was underway to create an "Economic Sacrifice Fund," chaired by MinState Babacan, who would publicize his efforts within one week. The Fund would allow Turkish citizens and corporations to donate money to help the Government meet debt payments. Last week PM Erdogan told the press of a similar effort, in which each citizen would be asked to voluntarily contribute \$100 to help the GOT meet debt payments. The April 1 Radikal newspaper (low circulation, aimed at intelligentsia) ridiculed what it called "dream-like" solutions to Turkey's debt problems. Bender Securities stock market analyst Golkan was more direct, calling this project "horse-s."

PEARSON